sense 60

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Where are banks going today? What's behind insurance diversification? The new financial conglomerates. Interviews with financial leaders: John Hill, L. Walter Lundell, Hulbert Aldrich, Dan Lufkin, Gerald Tsai, Jr., J. Howard Laeri.

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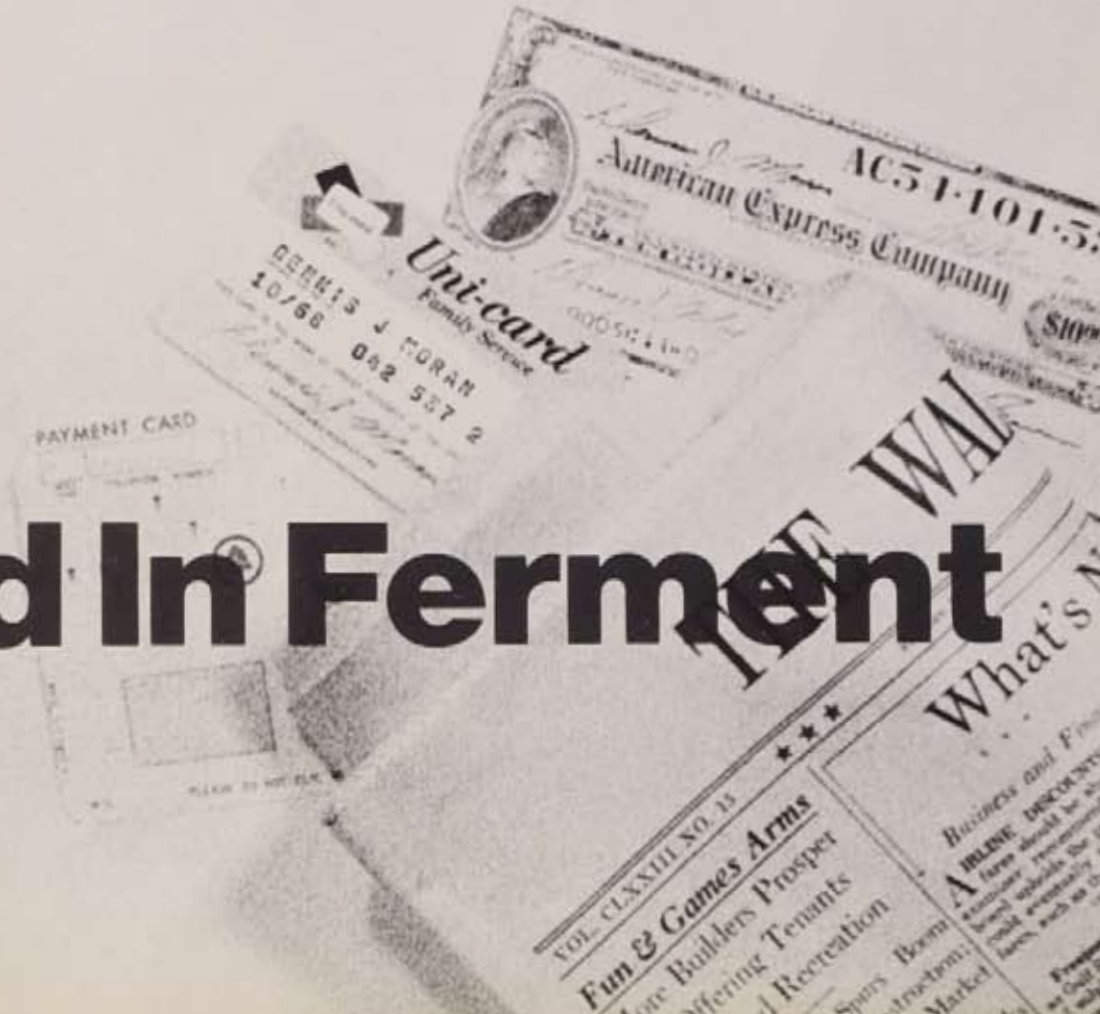


A Field In Ferment

FOR HIGH DISTINCTION

Where Are U.S. Banks Going Today?

The answer appears to be—almost anywhere they're allowed. From their traditional conservative stance, more and more banks are becoming involved in new areas of endeavor . . . and investigating others.

Bank of America, the nation's largest, announced plans to form a one-bank holding company on Sept. 17, 1968. On the same day, stockholders overwhelmingly approved a similar move by First National City Bank, the country's second largest bank and the largest bank in New York City. By early 1969, all six major New York City banks (each with assets of more than $1 billion) had announced holding company plans.

By their actions, these giants of the financial world joined dozens of other banks that have recently chosen this route to diversify their operations. Many more are expected to follow in the near future.

This sudden proliferation of one-bank holding companies is only one side of a growing interpenetration of banking and nonbanking enterprises—a trend that has reached the point where almost everything in the field of financial services seems to be up for grabs.

The new bank holding companies—financial congenerics—represent a big step away from banks' old generic form and traditional services. Describing the advantages, Bank of America's President R. A. Peterson declared, "A one-bank holding company presents possibilities for greater participation in a number of

profitable activities, particularly overseas. While we have no specific business in mind, such activities might include leasing, warehousing, mutual funds, financing land development, travel bureaus and other industries closely related to finance."

If such activities seem less than "closely related" to banking, consider that banks today are actively engaged in such businesses as insurance, credit cards, traveler's checks, accounting and computer services. Not too many years ago, these activities would have seemed quite remote from the traditional image of banking.

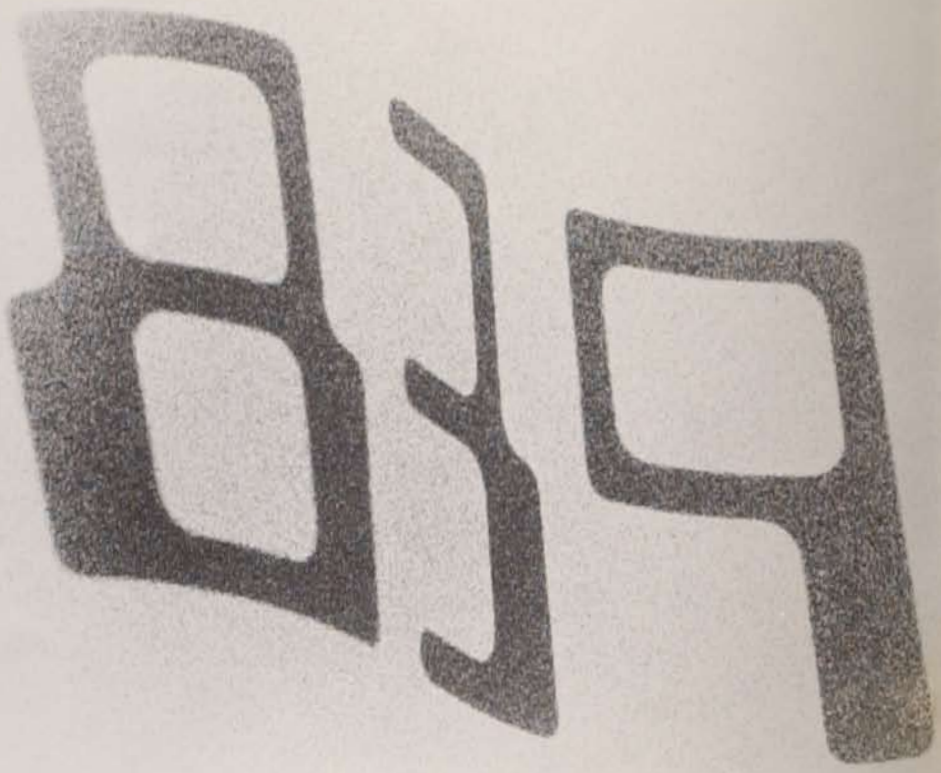
What has brought on this upheaval in the once staid and steady banking world? Despite their current high earnings, banks foresee serious trouble ahead for their traditional sources of income.

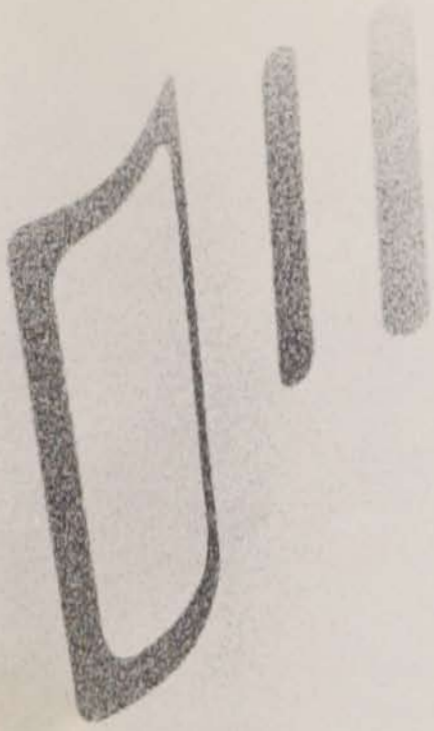
"The day of the free demand deposit will soon be as dead as the dodo," says Consultant E. Everett Smith of McKinsey & Co. A new breed of corporate treasurers doesn't believe in letting idle funds sit in banks at no interest. Either they sell it to banks as certificates of deposit earning a good return or they buy commercial paper from other companies, bypassing banks altogether.

"We're losing some of our best customers to the commercial paper market," states J. Howard Laeri, vice chairman of First National City Bank.

In seeking increased earnings through diversification, many banks are finding that one of their brightest opportunities lies in the natural affinity between computers and money. To reduce the labor costs of processing 20 billion checks annually, banks have pioneered in the use of computers. As a result, they own 8 per cent of all computers in the United States, with an estimated 17 to 19 per cent of total capacity. This gives them a big jump on most firms in combining computers and money to create a whole new range of services.

Since most business transactions flow through banks, they can easily become keepers of records, for example. Already they are issuing payrolls, billing accounts receivable, providing inventory





control for small businessmen. From performing all these services, it is only a short step to becoming full-fledged business counselors.

In this widening field of computer-assisted services, Bank of America appears to be leading at the present time. "We currently provide eight services," states President Peterson, "and five are profitable now. So far we've stuck to offering services that would have broad appeal and are financially oriented. We've turned down attractive offers to calculate bowling and golf scores—not to mention race-track odds."

Equipment leasing is another business service where banks have the wherewithal to obtain a firm foothold. Leasing can be extremely lucrative in the long run, but it takes enormous amounts of capital to get it going—and keep it growing. Obviously, banks can supply this. One thing they don't have, which most of their competitors do, is a sales force ready and trained to go out and get the business.

New Life In Insurance

In seeking to diversify, other financial institutions are not lagging behind the banks. The Continental Insurance Co. has reorganized as a holding company, the Continental Corporation, for advantages of diversification that would not be open to it under current insurance regulations.

In the last two years, at least half the nation's 30 largest stock life insurance companies have taken such action. And even those that have not are seeking new sources of income by venturing into variable annuities, mutual funds and diversified financial services—fields previously avoided in order to protect the sanctity of the "guaranteed dollar" concept.

Casualty insurers are faced with such ever-increasing and inflation-fed losses that even the most successful companies are worried. "We're losing our shirt in the casualty business," is the candid opinion of Olcott D. Smith, chairman of Aetna Life & Casualty. Speaking of mutual funds as a means of diversification, he says, "I think it's inevitable that we should get into this business. We must do it, not to keep up with the Joneses, but if the insurance company is ready to provide financial services of all types, I think this is another arrow in our quiver."

Mr. Smith also believes banking, data processing, accounting and financial advisory services are good possibilities for Aetna. "I can even conceive of being in the car repair business," he states (obviously thinking of the rising cost of claims). His only requirement, besides profitability, is that such added services be somehow related to the company's main business.

Until late 1966, USLIFE was the United States Life Insurance Co., oldest stock life insurance operation in the country. Already heavily in mutual funds, it is now moving into title and mortgage insurance. Gordon E. Crosby, Jr., chairman and president, looks forward to running a "financial department store" one day, including life and fire and casualty insurance, computer leasing, a savings and loan operation, and mutual fund shares.

With some 50 substantial insurance-mutual fund combinations already in existence, the nation's securities exchanges appear ready to do return battle. The Midwest Stock Exchange is considering the possibility of allowing qualified employes of its member firms to sell life insurance to the public. And on Wall Street some brokers believe that the Big Board's ban on such activity may be lifted in time.

INA Corporation, formed in 1968 as the vehicle for diversification of the 176-year-old Insurance Company of North America, startled the financial world recently by announcing plans to acquire World Airways, the nation's largest charter airline. The acquisition also will put INA into the banking business, since the airline had earlier acquired the First Western Bank and Trust Co., California's eighth largest bank. Another INA subsidiary allows its agents to sell 17 mutual funds for five major fund managers. It also has acquired the Star Sprinkler Corp., manufacturer of fire protection devices.

INA's diversified acquisition program may well point the way for many banking and insurance holding companies.

Despite their avowals to stay within congeneric limits, there is no reason why they could not diversify into any business areas that might appeal to their managements—even manufacturing, wholesaling or retailing, and thereby complete their evolution from generic to congeneric to conglomerate.

Such a possibility has been decried by members of the United States Savings and Loan League, whose outgoing President Hans Gehrke Jr. recently said, "One of the ironies of the American financial world is that while the commercial banks are very anxious to limit the scope of operations of savings institutions, they feel no compunction about an indefinite expansion of their own sphere of influence and operations." He urged the League to "vigorously support the efforts of the Federal Reserve Board and others to head off this threat to our nation's financial system."

Finance Companies Go Conglomerate

Certainly the movement toward conglomerates is rapidly gaining momentum among big finance companies.

GAC, already a diversified finance, insurance and manufacturing company, is converting to a holding company to facilitate further diversification, including negotiations to acquire controlling interests in a computer leasing concern and a chain of retail stores.

"The holding company approach to future expansion, although somewhat new in the finance industry, has been used many times by companies in other fields," states S. H. Wills, GAC president and chairman.

CIT Financial Corp. started early to diversify out of automobile retail financing into commercial factoring, life insurance, tuition installment plans, equipment leasing, manufacturing and retailing. In 1965 it acquired the Meadow Brook National Bank in suburban Long Island, then added the Bank of North America in Manhattan in 1967. Now amalgamated into one institution, its new National Bank of North America is opening headquarters on Wall Street to compete in the national money market with such leaders as First National City and Chase Manhattan.

In a deal which Business Week described as an "ideal match for both," Transamerica Corporation, a financial, entertainment and transportation conglomerate, recently agreed to acquire Metromedia, a communications complex which includes broadcasting stations, an outdoor advertising company and the country's largest direct mail company.

In other financial conglomerate activity, both American Investment and Beneficial Finance have expanded into retailing, while Household Finance and Walter Heller & Company have moved into manufacturing.

In effect, the same profit-margin squeeze foreseen by banks has already caught up with finance companies. The rise in interest rates has hiked the cost of the money they borrow. And in most cases, they have been unable to pass these increased costs on to their customers because of statutory ceilings on the maximum interest rates they can charge. Further, the finance companies face new competition from the commercial banks that have turned, as noted, to consumer lending.

The field of auto financing, for example, has grown from $12.2 billion in 1955 to more than $27 billion in 1967. But the finance companies' share of the business dropped from 57 per cent to 34 per cent during that period, with the banks taking over the biggest slice of the market. The moral—and the strategy—for finance companies has been clear: diversify or die.

Outsiders Want In, Too!

If it is apparent why the field of financial services is seeking diversification, what is the reason for outsiders trying to get in? Obviously, the big attraction is money and ready credit.

Second largest of the independent finance companies, Commercial Credit, recently merged into Control Data Corp., thereby giving that computer manufacturing and leasing business access to a formidable and welcome line of credit. The third largest, Associates Investment Co., recently joined Gulf & Western Industries.

And so each month brings new combinations of outside industries with financial organizations. Avco has hedged against the uncertainties of the aerospace busi-

ness by picking up the Paul Revere Life Insurance Co. and the Carte Blanche credit card operation, then moving to acquire Seaboard Finance. The Sperry & Hutchinson Co., which issues S & H Green Stamps, has announced an agreement to acquire the $322 million State National Bank of Connecticut, while D. H. Baldwin, the musical instrument manufacturer, recently acquired the Central Bank & Trust Co.of Denver.

Such ownership of banks by outside companies is possible through a loophole in the Federal Bank Holding Company Act under which a "registered bank holding company"–defined as a concern that owns 25 per cent or more of two or more banks–is generally prohibited from engaging in any business other than banking or a business "incidental to banking." There are no such restrictions applied, however, to ownership of a single bank.

As a matter of fact, some 600 concerns have owned single banks for many years, including such large retailers as Montgomery Ward, Macy's and Sears Roebuck. Since retailers may derive a considerable part of their net income from credit charges, they are, in effect, running successful banking businesses of their own. Sears, for example, charges 18 per cent interest a year the same rate that banks charge on consumer loans. And of its $8 billion annual volume, nearly two-thirds is charged . . . a highly lucrative service.

Some observers estimate that 50 per cent of the nation's general merchandise volume will soon be controlled by approximately 50 giant retailers Since they will not be about to surrender any of their profitable credit business, it might well occur to large banks to turn the tables on them one day. In other words, banks might be tempted to buy out some retail chains in order to break into this highly profitable area

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Proliferating Credit Cards

Of course banks already are heavily involved in retail credit through the bank credit cards that have swept across the country in the last few years. The American Banking Association estimated that some 2,000 bank credit card plans had $2 billion in retail sales charged on them in 1968.

For most banks, credit cards are still far from profitable. One exception is BankAmericard, which produces about 5 per cent of Bank of America's net income. Chase Manhattan had so little success with its pioneering entry into credit cards in the late 1950's that it sold its plan to Uni-Serv. Later it tried to acquire Diners Club but the Justice Department objected. It has now come full circle, by repurchasing its original credit card business from Uni-Serv, which had meanwhile become a subsidiary of American Express.

First National City ran into a similar block from the Justice Department when it acquired control of Carte Blanche and was forced to sell its equity to Avco. It reentered the field with its Everything Card, but recently converted to the Master Charge card, largest element in the Interbank credit card exchange system.

Interbank is BankAmericard's arch rival. It works as a loose confederation of several hundred bank card plans that are interchangeable. These two systems (BankAmericard also is licensed on a nationwide basis to other banks) undoubtedly represent the future for bank credit cards. As they rapidly acquire new members, they will replace the hundreds of individual plans that have proliferated so chaotically in the last few years.

Indeed some bankers believe that eventually even these two major systems might become one, just as all banks use a common system for exchanging checks among themselves.

American Express has not failed to respond to the inroads the banks have been trying to make into its credit card and traveler's check preserves. It has reinforced its position in overseas banking and moved into insurance, mutual funds and computer leasing by way of a combination with Fund American Companies. Acquisition of U.S. Camera puts it also in publishing.

Legislative Restraints

As a highly regulated industry, is the field of financial services apt to face new legislative restraints as a result of its rapid diversification?

In its statement announcing plans to form a holding company, the Bank of America noted that it had to consult the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Department of Justice and the Internal Revenue Service.

Within those groups there appear to be some sharply conflicting views. Currency Comptroller William B. Camp praised the holding company reorganization of First National City Bank as enabling "the participants to strengthen their banking and related services in both the domestic and international markets." He added, "It cannot possibly have any effect on competition between the participants" and is therefore in the public interest.

On the other hand, William McChesney Martin, chairman of the Federal Reserve Board, has expressed concern about bank expansion "further and further into other fields." Vice Chairman J. L. Robertson went even further to say, "We appear to be drifting toward a repetition of serious errors that the banking industry fell into in the 1920s."

Following a study that should be concluded by early 1969, the board is expected to recommend legislation that would bring one-bank holding companies under Federal control. There is speculation whether this might require holding companies to get out of non-banking activities or whether some sort of "grandfather" clause would exempt those companies already in existence.

A Wall Street Journal editorial declares, "It's hard to see that what's allegedly dangerous for a bank would suddenly

become safe for a holding company. The bank, after all, remains the dominant element in the complex and would suffer to some degree from any misadventure by the holding company." The Journal believes, however, that banning one-bank holding firms "would be a narrow approach to what is actually a much broader problem... It's high time to re-appraise a regulatory setup that forces banks to seek flexibility by picking their way through a maze."

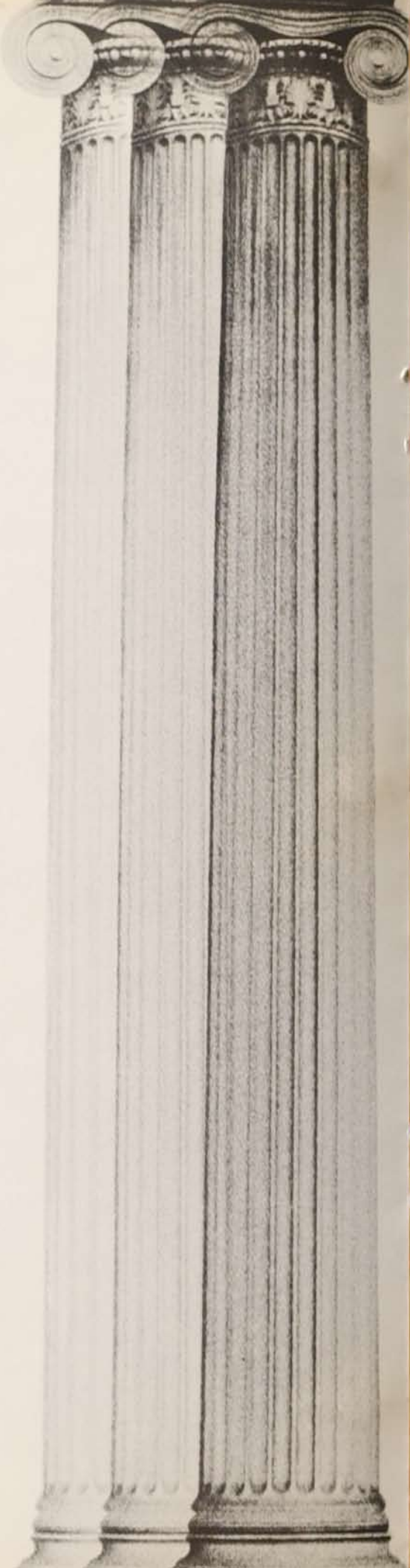
The proliferation and overlapping of services among financial institutions is bound to engender more and more opposition from many sources. A public accountants association wants legislation passed in Congress to keep banks out of the accounting field. Congressman Wright Patman, chairman of the House Banking & Currency committee, has talked about getting banks out of the credit card business. Insurance agents are suing Citizens & Southern Bank in Georgia to stop the bank from selling insurance. And in Massachusetts, travel agents are suing the South Shore National Bank to prevent it from entering the travel business.

As Citibank's Vice Chairman Laeri has said, "Everyone is trying to get into our business, but when we try to get into theirs, we run into the laws, the Patmans or the courts."

New Growth Opportunities

Still, banks have a lot of prestige and power going for them. New York State has passed a law letting state banks go into equipment leasing. Congress has a number of proposals favorable to banking, including one which would allow banks to operate the equivalent of mutual funds.

In short, the factors killing oldtime practices of banks and other financial institutions are also creating new opportunities for their capital, their reputation and their know-how. To seize these opportunities requires aggressive, far-sighted managements who realize that they are financial servicers rather than just



banks or insurance companies or whatever.

"For the first time, banking can become a growth industry," says Federal Reserve Governor George W. Mitchell. And Forbes magazine states: "Banking is on the verge of the biggest changes in its history—and the changes are going to separate the men from the boys."

The same can be said for other members of the financial industry, with growth forcing wholesale mergers. Some experts predict that one-third of the country's life insurance companies will disappear through mergers and acquisitions in the next half-dozen years, as well as many casualty underwriters.

As Mills B. Lane Jr., president of Georgia's Citizens & Southern Bank, sees it, "The future is largely in services for the individual. Trust, travel, insurance, personal loans, credit cards—the works. The opportunities here are so broad that there's room for everybody."

But with "everybody" competing, it won't be easy. As members of a service industry, financial institutions will have to organize themselves more like industrial corporations, bringing in new people with new skills. There will be no monopolies such as banks have enjoyed in holding demand deposits.

Most important of all: in this new and more crowded marketplace, financial organizations must face the problem that all retailers face; namely, how to penetrate the consumer's consciousness.

The Blurred Image

Even today, many people are confused about the differences among financial institutions—commercial banks, savings banks, savings and loan associations, loan companies. Several years ago, a survey commissioned by the Foundation for Commercial Banks found that 40 per cent of the 1,700 people sampled thought that savings banks offered checking accounts. Almost 20 per cent thought that savings and loan associations included checking accounts among their services too.

"The problem," moans one commercial banker, "is not only the image we started with, but the fact that we are more and more becoming one great big indistinguishable can of worms."

Insurance companies and mutual funds are also grappling with the problem of differentiation. There are few investors around that could accurately distinguish an insurance company's variable annuity plan from a mutual fund's monthly investment program.

The financial conglomerates are having their identity problems too. Transamerica launched a multi-million dollar advertising campaign in an attempt to put across an image to its liking. Growled Chairman John R. Beckett in one of the ads, "If we wanted to be known as an airline, we'd have gone out and bought one." (Subsequently, Transamerica did.)

If financial institutions have a blurred image in the eyes of the public today, what will be the effect as competing services more and more cross traditional lines?

Inevitably there would seem to be trouble ahead. With banks, insurance companies and investment houses all talking about becoming "financial department stores," some are bound to get buried in the pile-up. On top, of course, will be the winners.

Know What You Are, Then Say It!

What will be the future identity of the successful financial institutions? What should they be? Will the stable shadow cast by banks benefit, say, a retail chain? Can the monolithic profile of a financial conglomerate generate a "friendly" atmosphere for personal loans? Will the look-to-the-future attitude of an insurance company be appropriate to the charge-now-pay-later philosophy of a credit card company?

There are no pat answers. But obviously, it will not be enough to merely offer the most diverse financial services, or even the best ones. As the homogenizing process continues, many financial institutions will find themselves being backed into a corner with the following imperative:

Find a believable identity! Find it and communicate it! For if you are to succeed, you must consider yourself as much in the communications business as in the finance business. An effective corporate identity system calls for deep corporate self-knowledge acquired through comprehensive study, research and analysis.

In redefining your business, you may open up new horizons and find unique reasons for customers to deal with you. As a highly regarded manufacturer of baby foods, Gerber redefined itself as a manufacturer of baby products to expand into baby clothes and diaper liners. Revlon no longer sells merely cosmetics. It sells beauty—in conjunction with fashion. Comprehensive study revealed to Mead Johnson that it was more than a drug company. It is a manufacturer of products for the broad Health-Life market – that could meet the evolving needs of consumers at every stage of the life cycle.

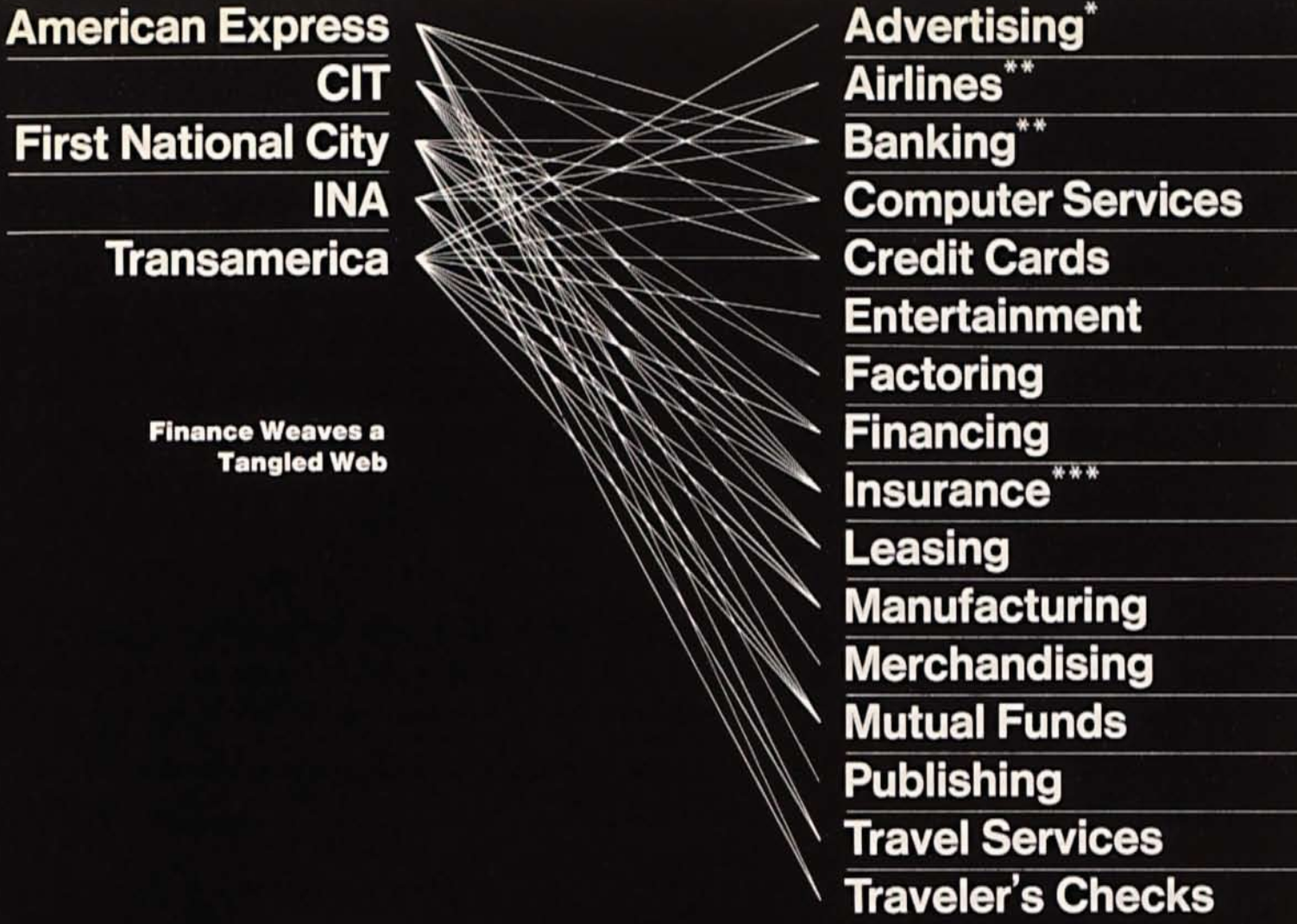
Once a company's attributes, opportunities and objectives have been isolated, a comprehensive communications strategy can be developed. The effective execution of this strategy will proclaim loudly and clearly your strengths and advantages to all important publics—customers, shareholders, employes, the press, the government and other members of the financial community.

Your name—and what the public associates with it—is one of your company's greatest assets. If the public has a need, and they think first of you or your product, then you have built the sort of consumer franchise that spells success.

Which company do you associate with each of these commodities?

camera film	bus travel
cheese	small bandages
facial tissue	steel
wax	copying machines

Your responses prove the power of good products and good communications. And never before has the combination of good management and effective communications been so important to future success in the financial industry. The challenge to change has been sounded, and the diversified financial stores of tomorrow will belong to those who heed it by building the best consumer franchises today.



Finance Weaves a Tangled Web

* Pending Transamerica acquisition
** Pending INA acquisition
*** Pending First National City acquisition

Financial Leaders Comment on the Changing Scene

John A Hill

President, Aetna Life & Casualty

Mr. Hill joined Aetna as a part-time representative while still a senior at the University of Denver, where he was graduated in 1928. He became the company's youngest general agent by the time he was 30, and as head of the Toledo, Ohio, life division he proved one of Aetna's all-time best salesmen. In 1958 he was named senior vice president in charge of all operations of the life division, and in 1962 he became president of Aetna Life & Casualty.

Mr. Hill, what do you consider the major problems facing insurance companies today?

I would say the major problem is adapting to the rapidly changing environment within which the industry operates. Two examples may suffice. There is widespread dissatisfaction with the operation of the present auto insurance system and an apparent need for basic revisions. In life insurance, the increasing equity orientation of consumers and resulting introduction of equity products by the industry is a significant departure from prior experience, and carries with it a variety of distribution, regulatory and management problems.

What do you regard as the most promising growth areas in the next five years?

In terms of rapidity of growth, equity products—either alone (mutual funds) or combined with insurance (variable annuities). In terms of volume, continuing growth in the areas of conventional life, group and casualty and property insurance.

Do you think increasing diversification will significantly affect the traditional structuring of the financial industry?

Yes, I think in time the trend toward diversification within the financial industry will blur the institutional lines between large insurance companies, banks and other financial institutions.

L Walter Lundell

Chairman and Chief Executive Officer, CIT Financial Corp.

After studying accounting at Northwestern University, Mr. Lundell joined the Chicago Acceptance Corp. as office manager in 1924. Three years later the company became a part of CIT. Through a series of promotions, Mr. Lundell was named a vice president of CIT in 1952. He became president in 1960 and has been chairman since Feb. 1, 1968.

Mr. Lundell, what is the strategy behind CIT's diversification moves?

Until 1958, our expansion and acquisition program focused on essentially financing areas. By then it became apparent that our very large resources could not be fully employed exclusively in the traditional lines of consumer and industrial financing, factoring and insurance activities related to the credit functions. So the company carefully sought opportunities to use its financial strength fully by taking equity positions in various attractive business situations, as opposed to being purely a creditor.

What was banking's appeal to CIT?

The National Bank of North America offered CIT a promising opportunity to reinforce and expand our position in the world's preeminent financial market—metropolitan New York City.

What are other logical areas into which CIT might expand?

While considering corporate opportunities to make the right acquisitions, strong emphasis will also be placed on maximizing profits of our present operating units. Some of our subsidiaries, for instance, have been expanding their operations by acquisition. Gibson Greeting Cards has gone into the gift wrapping business. All-Steel Equipment has expanded into the Canadian office furniture market. Meadow Brook National Bank has merged with the Bank of North America.

Will the expansion of commercial banks into one-bank holding companies mean more competition both within and beyond the banking business?

I suppose so, but we are used to competition, and CIT intends to remain as highly competitive as ever in any business where it operates.

Do you think it will be difficult to distinguish the activities and identities of some large banks from some large insurance companies and finance companies ten years from now?

The functions—banking, insurance, consumer financing—will be readily identifiable, but it seems clear that corporate forms or names will continue to undergo changes with time.

Hulbert S Aldrich

Vice Chairman, Chemical Bank New York Trust Co.

Since graduating from Yale University in 1930, Mr. Aldrich has been continuously associated with Chemical Bank New York Trust and its predecessors. He became a vice president in 1943, president and director in 1952, vice chairman and a member of the executive committee in 1959.

Mr. Aldrich, do you expect the merger trend in banking to intensify?

I think it will continue as a natural result of the growing concentration of people, and as the new services offered by branch banks meet with increasing favor. Also, the electronic equipment, which is becoming more and more necessary, is very expensive, and with the need for a higher degree of sophistication in the investment field, it becomes increasingly difficult for smaller banks to offer customers all the services that bigger banks can support.

Have these same factors led banks to diversify outside their traditional fields?

No, I think the principal factors there are the need to protect profit performance in the face of steadily inceasing costs, and a very natural and healthy reaching out for profitable growth.

Do you think diversification through bank holding companies will go as far afield as equity financing, retailing or manufacturing in the next decade?

I would hardly expect such drastic changes in the next few years.

Does the possibility, however, raise important questions of public policy?

I wouldn't think the mere act of diversification would raise any such questions. Any such diversified organization would presumably be bound by the same laws and restrictions that now face conglomerates other than banks, and the question of public policy involvement would seem to me to depend on how these companies operate. In any case, I would doubt that the rather strict supervision of banking operations per se would be relaxed.

In the long term future, given the current rate of diversification, do you think it will be difficult to distinguish the activities of some big commercial banks from some big insurance companies and finance companies?
If you mean within ten years, I think it will be very easy to distinguish them. If you mean by the year 2000, then there may well be increased similarities. I don't mean they will all be identical conglomerates. Rather, there may be more overlapping of functions as they develop basic money services in ways that will benefit customers to an extent not now possible.

Dan W Lufkin

Chairman, Donaldson, Lufkin & Jenrette, Inc.
A graduate of Yale and the Harvard Graduate School of Business, Mr. Lufkin was with Jeremiah Milbank until 1959, when he helped to organize DL&J as a New York Stock Exchange member firm. A combination of a research and economic consulting firm, investment counselor, financial management consultant, investment banker, real estate developer and securities broker, DL&J does not solicit business from the public.
Mr. Lufkin, how do you explain the development of the financial conglomerate?
It is a defensive maneuver as the financial fields are invaded by non-financial organizations. For example, a large retail chain with a revolving credit card is actually entering the banking business. As a result, the traditional markets of many financial organizations are shifting with resulting rising costs of marketing. Their desire to avoid this profit squeeze has led to diversification.
What will happen to those financial institutions that don't climb aboard the conglomerate bandwagon?
It may be too early to tell, but there is no real evidence yet that a full-line house is inherently better off than a "good" specialty house. Both will continue to make money. In the short run I would expect to see faster growth in the best full-line houses. This growth will eventually be slowed by regulation.

Gerald Tsai Jr

President, Tsai Management & Research Corp.

Mr. Tsai came to the U.S. from Shanghai at the age of 17 to study at Boston University, where he was graduated in 1949. After a short stint as an analyst at Bache & Co., he joined Fidelity Management & Research Co. He was executive vice-president there when he left in 1965 to create his own firm. Tsai Management & Research is investment advisor and distributor of Manhattan Fund, Inc. It also is investment advisor to Hemisphere Fund, Fundex Inc. and TMR Appreciation Fund. Its subsidiary, Tsai Investment Services, is investment advisor and distributor of Liberty Fund, as well as manager to institutional and individual investment counseling clients. Mr. Tsai also is a director and executive vice-president of CNA Financial Corp., the holding company into which Tsai Management & Research was merged in August, 1968.

Mr. Tsai, can you tell us the rationale behind the consolidation of Tsai Management & Research with CNA?

We look for CNA to develop into a department store of finance and consumer services with the emphasis on financial operations. There are other department stores of finance, but we expect CNA to have a specialty shop thesis. To use an analogy, we are not as interested in a Gimbel's as in a Bergdorf's or Milgrim's or Nieman-Marcus. Inside the CNA department store, Tsai Management & Research Corp. will be a specialty operation in the mutual fund field.

Do you think the sale of mutual funds by insurance companies will take away sales from established houses?

No, they will reach segments of the population that have never been in a brokerage house and so expand the market. CNA plans also to offer some day a package deal of life insurance and equities.

Do you expect the trend toward financial congenerics and conglomerates to continue?

Obviously, we do. The financially related company has so much to offer other industries that they should be permitted to grow in order to benefit the overall economy. Within five years or less, there will be major changes in laws affecting banks, insurance companies and other financial institutions to permit greater synergism.

What are possible new directions for CNA?

CNA hasn't ruled out such things as health services and information technology. Leasing, for example, is a logical field for diversification. If you have the cash flow to finance it, why not have your own operation?

Will the conglomerates work to sharpen competition?

Let us be very blunt about this: there will be greater competition. As the economy grows and prospers, there is always tough competition, not only from new ideas but from new people. If one can master it, his company and shareholders will benefit. In the long run, our industry and our country will benefit, too.

J Howard Laeri

Vice Chairman, First National City Bank

Three months after graduating from Williams College in 1928, Mr. Laeri joined Citibank as an $1,800-a-year trainee. From fledgling loan officer, he moved through a variety of assignments, becoming an assistant cashier in 1940, assistant vice president in 1942, vice president in 1945, executive vice president in 1952. He has been vice chairman of the bank since 1965 and was recently president of the American Bankers Association.

Mr. Laeri, what advantages does Citibank see in converting to a one-bank holding company?

It will allow us to respond to our customers' expanding and changing financial requirements. Such activities as factoring and leasing would have a greater potential, operating as subsidiaries of the holding company, since geographic expansion would be easier.

What is the rationale behind the bank's diversification into factoring and credit cards?

It was a logical and forward step to incorporate the personnel and experience of Hubshman Factors into Citibank in 1965 to provide direct factoring and commercial financing to our customers and those of our correspondent banks. Our credit card is a natural extension of the bank's credit-granting function. Simply put, diversification is intended to enable us to respond to the needs of our customers and to provide new sources of funds for our operations.

What do you consider the most promising growth areas for commercial banks in the next five years?

If the economic health of the nation continues as expected, both the consumer and corporate sides of banking offer prospects for growth. Growth in services will rotate around the center of the commercial bank's traditional functions. That is to say, it is likely to be centripetal rather than centrifugal growth.

Commercial banks will continue to be oriented toward consumer financial services. This is obvious in the description, "Full Service Bank," and is also evidenced in the number of banks issuing credit cards.

Opportunities on the corporate side arise with the growing technology of American enterprise. Specialized financing requirements for jet aircraft, computers and commercial satellites are far different from traditional corporate lending practices and require far more specialized skills.

Both consumer and corporate markets must be served, and if commercial banks don't adapt to the markets' needs, someone else will.

Preparing Today For Tomorrow's Needs

Many financial organizations are busily broadening and reshaping their business aims and procedures today. But only a few have yet taken the very necessary collaborative step of projecting their new form and services through an equally sophisticated and comprehensive communications program.

One company that did was Security Life & Trust of Winston-Salem, N.C., a diversified financial services company offering a broad range of insurance products, a mutual fund and computer services—and with its eye on real estate leasing, ownership and management.

Like many growth companies, however, Security found that its major strength—its diversity—was presenting organizational problems. It resolved to form a new management corporation to unite its various operating units under a holding company. But more was needed. As President J. Edwin Collette noted, "Change requires expression." And the task of developing a new corporate communications program was so complex and important that Lippincott & Margulies was called in to help.

Through joint endeavor Security was able to formulate clearly its objectives and corporate philosophy for translation into communications strategy. The new overall management corporation was named Integon, appropriately suggesting its effectiveness in uniting the company's many parts to form a new whole.

The advantages of Integon's new corporate structure and communications will become even more apparent as the company continues to diversify. They establish, in effect, a system enabling each subsidiary and division to contribute directly to the identity and success of the whole enterprise.

Lippincott & Margulies has worked with other major financial institutions in developing communications programs to help them prepare for the new era of greater diversity and more customer-oriented services. Among them are Aetna Life & Casualty, New York Life, The Royal Bank of Canada and The Fidelity Bank, formerly Fidelity-Philadelphia Trust Co. L & M is also currently involved with a number of other financial institutions in these areas.

Inevitably, all financial organizations must become more concerned with their corporate communications, as diversification leads to increasing duplication of services and blurring of institutional lines. The reasons why a man or a business turns to one particular bank or insurance company or brokerage house will assume crucial importance as it becomes more difficult to distinguish between the services of a bank, an insurance company or a brokerage house.

To repeat our earlier conclusion: the financial institutions working today to build the best consumer franchises are the institutions who will succeed in realizing the exciting opportunities that lie ahead.

Readers of this issue will find the following of special interest:

Sense 59 The Vital Role of Communications in Mergers & Acquisitions
What's the most critical period in a merger or acquisition? Before? During? After? A discussion of how all three call for every bit of expertise that management can command. The often overlooked factor of corporate communications, its opportunities and problems. Detailed examination of each stage of corporate amalgamation, with useful checklists on what to do.

Design Sense 58 Renewed Vitality for Very Large Corporations
How can a very large corporation encourage the innovative agressiveness needed to achieve continued growth? Why corporate communications can never be static. RCA the story behind a major communications change. Robert Sarnoff's guiding philosophy for success. A new perspective for communications efficiency in today's more crowded and competitive marketplace.

Design Sense 49 What Wall Street Says and Does About the Corporate Image
What effect has corporate image on the price of a company's stock and the way it is traded on Wall Street? This question is examined in depth by four financial leaders representing an investment firm, a mutual fund, a stock exchange and a bank. Their opinions are supported by a study of the behavior of individual stock issues over a four year period.

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